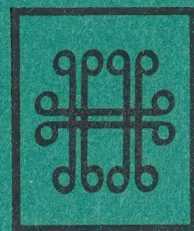


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HARDING CARPETS

L I M I T E D

1967

Fortieth Annual Report

HARDING CARPETS LIMITED

**Annual Report for the Year ended
October 31, 1967.**

CONTENTS

Directors and Officers	2
Comparative Highlights	3
Letter to Shareholders	4
Financial Review	5-6
Operations Review	7
Marketing Review	8-9
Statement of Income and Retained Earnings	10
Balance Sheet	11-12
Notes to Financial Statements	13
Statement of Source and Use of Funds	14
10 Years Summary of Financial Data	15-16
New Products	17

The Annual and Special General Meeting of Shareholders will be held on February 6, 1968, at 11:00 a.m. at the Head Office of the Company.



DIRECTORS AND OFFICERS

DIRECTORS

CHARLES V. BANKS,

deceased October 10, 1967

FRANCOIS E. CLEYN, Huntingdon, P.Q.

President, Cleyn & Tinker Ltd.

Director, The Halifax Insurance Company

C. GORDON COCKSHUTT,

deceased December 12, 1967

ALBERT DAVIDSON, C.A., Brantford

President, Harding Carpets Limited

J. DOUGLAS GIBSON, O.B.E., Toronto

Director, Imperial Life Assurance Company of Canada

Director, Consumers' Gas Company

C. MALIM HARDING, O.B.E., Brantford

Chairman of the Board, Harding Carpets Limited

Director, The Toronto-Dominion Bank

FRANK D. LACE, D.S.O., O.B.E., Toronto

President, Matthews & Company Limited

Director, The Overland Express Limited

HUGH J. McLAUGHLIN, Q.C., Toronto

Partner, McLaughlin, May, Soward, Morden & Bales

Chairman of the Board, Victoria & Grey Trust Company

WILLIAM H. YOUNG, Hamilton

President, The Hamilton Cotton Company Limited

Director, Cosmos Imperial Mills Ltd.

Head Office Brantford, Ontario

Stock Exchange Listings Montreal Stock Exchange
Toronto Stock Exchange

Transfer Agent and Registrar . Montreal Trust Company
Toronto, Montreal,
and Calgary

Bankers The Royal Bank of Canada

Shareholders' Auditors Price Waterhouse & Co.

OFFICERS

C. MALIM HARDING

Chairman of the Board

ALBERT DAVIDSON

President

HUGH J. McLAUGHLIN

Vice-President

ERNEST C. CARTER

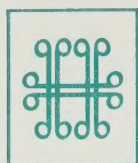
Vice-President

HARRY J. HIGSON

Vice-President, Manufacturing

J. W. ROSS CALDWELL

Secretary-Treasurer



COMPARATIVE HIGHLIGHTS

	Year ended October 31		% Change from 1966
	1967	1966	
Sales	\$22,040,204	\$22,089,406	— 0.2%
Income before taxes	1,775,680	2,894,368	—38.7%
Income taxes	366,000	1,133,400	—67.7%
Net Income after taxes	1,409,680	1,760,968	—20.0%
Non-recurring profit less applicable tax	—	163,392	—
Earnings per share			
Common and Class A	0.90	1.12*	—19.8%
Dividends paid per share			
Common and Class A	0.46	0.40*	+15.0%
Shareholders equity per share			
Common and Class A	5.71	5.27*	+ 8.3%
Capital expenditures	3,776,799	3,044,703	+24.0%
Depreciation	608,878	531,107	+14.6%
Working capital	8,562,979	6,269,643	+36.6%
Ratio of current assets to current liabilities	2.7 to 1	2.1 to 1	—
Long term debt	7,600,000	4,100,000	+85.4%
Shares outstanding			
Common	525,000	524,900*	—
Class A	1,046,750	1,044,550*	—
Number of shareholders	2,529	2,230	+13.4%
Salaries, wages and employee benefits	5,097,602	4,800,139	+ 6.2%
Number of employees	1,045	941	+11.0%

*Adjusted to reflect subdivision of common and Class A stock on February 11, 1967.

LETTER TO SHAREHOLDERS:

While 1967 did not set any record for sales growth and profit, much was accomplished during the year. We hope the groundwork has been laid for our continued advance in the future. More detail regarding the analysis of the results is given in the Financial, Operating and Marketing Reviews.

It should be remembered that business conditions in Canada and for the carpet industry in particular did not show the same rate of improvement to which we have been accustomed in previous years. Retail sales, although showing an overall increase, showed less of an increase for the categories of durable goods, of which our product is one. Against this background, there was very much intensified competition, particularly from new firms recently established in Canada. These factors have caused a lowering of our selling prices beyond that which would have been justified by the decrease in raw material prices which took place during the year.

Over the past few years increases in costs, particularly in labour costs, have been to some extent off-set by increased volume. The high increases in wage rates which we have experienced recently, together with this slowdown in growth in 1967, have caused an undue strain on the profit margin.

The outlook for the immediate future will depend upon the general business activity in Canada and there is no denying the fact that the forecast for 1968 is somewhat uncertain and there are many problems to be solved. Nevertheless, we look forward to the continued long term growth in the demand for carpets. This point is well brought out by the statement in the Fourth Annual Review of the Economic Council of Canada in assessing the demand growth to 1970, where it is stated:

"The sharp rise in new marriages and the associated increases in family and household formation will create strong demands for housing in Canada, as well as demand for a wide range of consumer durable goods and household furnishings."

We look forward to a growth in the scale of operations and improvement in profit margins in 1968. Profit after tax will be affected by a higher effective income tax rate due to Harding Brantford

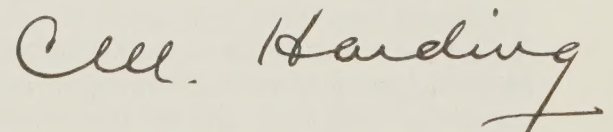
Limited being no longer eligible for a tax holiday. As well as a year of improvement we also expect it will be a year of consolidation of the major expansion that has been launched over the past two years. The Collingwood plant which we expect will provide a substantial part of our growth, will take another year or two to reach its maximum productivity and efficiency.

It is with deep regret that we record the passing of Mr. Charles V. Banks and Mr. C. Gordon Cockshutt. Mr. Banks served for 32 years as an executive of the Company and retired in 1960 from active service, but continued as a Director and consultant. Mr. Cockshutt served as a Director of the Company for 37 years and always maintained a very keen interest in the Company. Their wise counsel and warm personalities will be missed by the Board and their many friends.

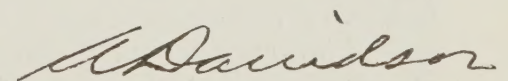
We take this opportunity on behalf of the Board of Directors to express our sincere appreciation to all employees for their contribution during the past year. Without this co-operation and loyalty from our staff along with the support of our customers, the growth over the past few years would not have been possible.

The Annual Meeting of the Company will be held at the Head Office in Brantford on February 6, 1968. We look forward at that time to welcoming as many shareholders as possible and reviewing the current situation.

Respectfully submitted,



Chairman of the Board



President

December 19, 1967

FINANCIAL REVIEW

The consolidated net income from operations of \$1,409,680 is down 20% from 1966. The earnings on both the common and Class A shares of 90¢ compares with \$1.12 last year after allowing for the two for one subdivision.

The investment in buildings and equipment at the new Collingwood plant is eligible for area development assistance through the Department of Industry. Investments to June 30, 1967 have earned a grant of \$726,066 of which \$435,640 was received early in fiscal 1968.

For 1967, \$152,116 of the grant has been added to income to offset the effect of start-up expenses at the Collingwood plant. The balance of the grant earned in 1967 will be brought into income over the following three years. In the future as grants are earned through expenditures on plant and equipment, they will be applied in a similar manner. Since capital expenditures in Collingwood for the next three years will qualify for assistance, it will require six or seven years to take up all the grant. This treatment is designed to approximate the effect of the benefit on income after taxes obtained from the operations of Harding Brantford Limited over the past three years.

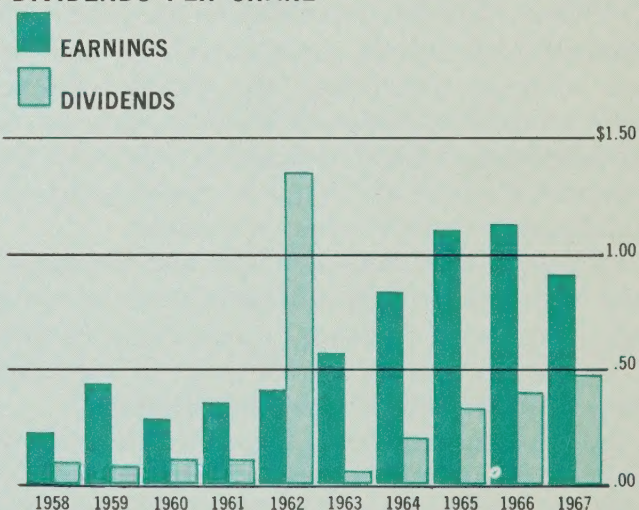
The earnings of Harding Brantford Limited after 1967 will no longer be exempt from income tax under the designated area legislation.

Start-up expenses at the new Collingwood plant during the past year amounted to \$316,909. These costs include pre-production expenses, the training of the work force and the under absorption of overhead until such time as volume reaches capacity levels. For a good part of the year, the labour turnover in Collingwood was higher than expected due to unsettled labour conditions. By year end, this condition had improved and a two year contract with the Union was signed in September. In 1968, there will still be some start-up costs, but the major part has been absorbed in 1967.

A number of factors have contributed to the reduction in earnings from last year. Higher wages and other costs of doing business have not been offset by price increases or an increase in total volume. On the contrary, lower selling prices have prevailed for the greater part of the year and in some cases the lower prices were partially offset by lower material costs. The drop in costs of raw materials during the year required some write-down in inventory values at year end. Both sales and earnings for the second half suffered from the two week strike in September at our Brantford plant. The depreciation charged in the accounts is up \$77,771 while total sales are about the same as the previous year.

Selling and administrative expenses show an increase of \$300,076 over 1966. In addition to higher advertising and product development costs, higher

EARNINGS AND DIVIDENDS PER SHARE





salaries and staff increases have made up the greater part of this increase. Our organization has been strengthened to handle a larger scale of operations and investment is being made in computer programming which will benefit the future.

Our wholly-owned subsidiary, L. & G. Floor Coverings Ltd. which distributes our products in the Province of Ontario enjoyed a good year and contributed to consolidated earnings. The cost of relocating in the new Toronto warehouse together with write-downs on discontinued lines did reduce profit for the year.

Although the automotive carpet plant has overcome technical start-up problems, the volume is not yet high enough to contribute to earnings. It has, however, provided additional volume for spinning, tufting and piece dyeing. As the current

orders run to next June, it is not expected that there will be any appreciable improvement through the greater part of our next fiscal year.

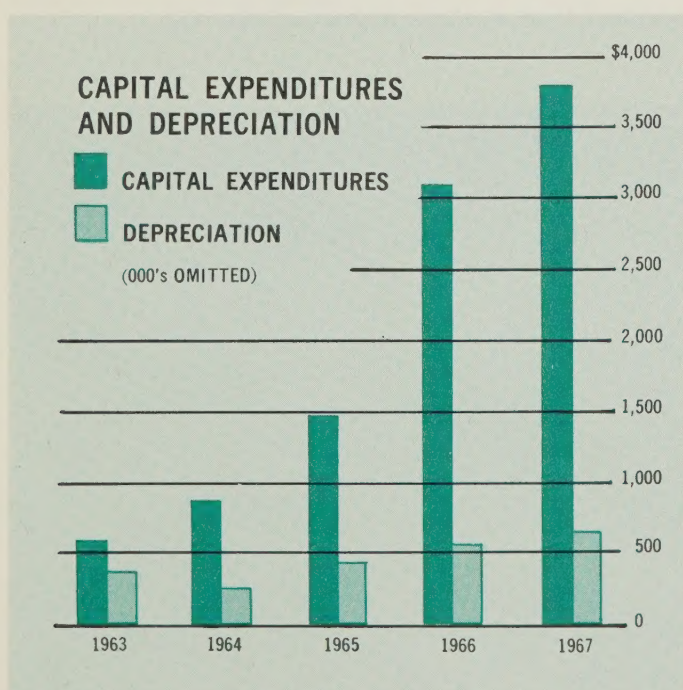
Inventories of \$7,427,490 show an increase of \$702,416 due to a build-up of goods-in-process inventories at the new Collingwood plant and a more adequate finished goods inventory.

During the year, additional financing was completed. This included \$2,500,000 series B sinking fund debentures bearing interest at $6\frac{7}{8}\%$. The debentures were issued under the same Deed of Trust as the series A and were sold at $99\frac{1}{2}$ with maturity February 1, 1987. In addition, a loan of \$1,500,000 was obtained from the Adjustment Assistance Board of the Federal Government to assist our entry into automotive carpet. This loan bears interest at 6% and is repayable in semi-annual instalments commencing October 15, 1967. The final payment is due October 15, 1974.

Dividends paid during the year on both classes of shares totalled 46¢ compared to 40¢ in 1966 after adjusting for the two for one split. A dividend of 12¢ per share on the common and Class A stock has been declared payable January 2, 1968.

The working capital at October 31, 1967 of \$8,562,979 shows an increase of \$2,293,336 for the year. The major factors affecting working capital are the additional financing mentioned above and the large expenditures on fixed assets. Other factors are shown on the Statement of Source and Use of Funds on page 14.

An Audit Committee has been formed consisting of the non-management members of the Board of Directors. The Committee will meet with the auditors and review reports arising from their examination of the accounts. We feel this is a forward step in light of modern corporate and accounting practices.



OPERATIONS REVIEW

Production volume for the year was down mainly due to lower demand for woven carpets and a two-week strike at the Brantford plant in September. Tufting yardage was up slightly over last year. The Wilton and Axminster Departments of the Weaving Plant have experienced a reduction in volume. This follows a pattern that is evident in the carpet industry in the United States.

The automotive plant in its second year is operating at a low level and this will continue through the 1968 model year. Operations of the automotive plant consist only of the forming and finishing of the units and as such represents a small part of overall operations. Automotive requirements for spinning, tufting and dyeing are provided by our main operation.

The start-up of the Collingwood plant was delayed initially by the late completion of the building and slow deliveries of equipment. The unsettled labour conditions in Collingwood brought about by the rapid industrial growth, did not facilitate the selection and training of new employees. By the end of the year, much progress has been made in building a work force and a two year contract has been signed with the Union. Multiple shifts are now operating and will be expanded further in the near future.

The new Collingwood plant is the most modern of its type in Canada. The productivity of the plant will improve as workers gain experience and with the greater utilization of this new facility, it will make an important contribution to the operations

of the company.

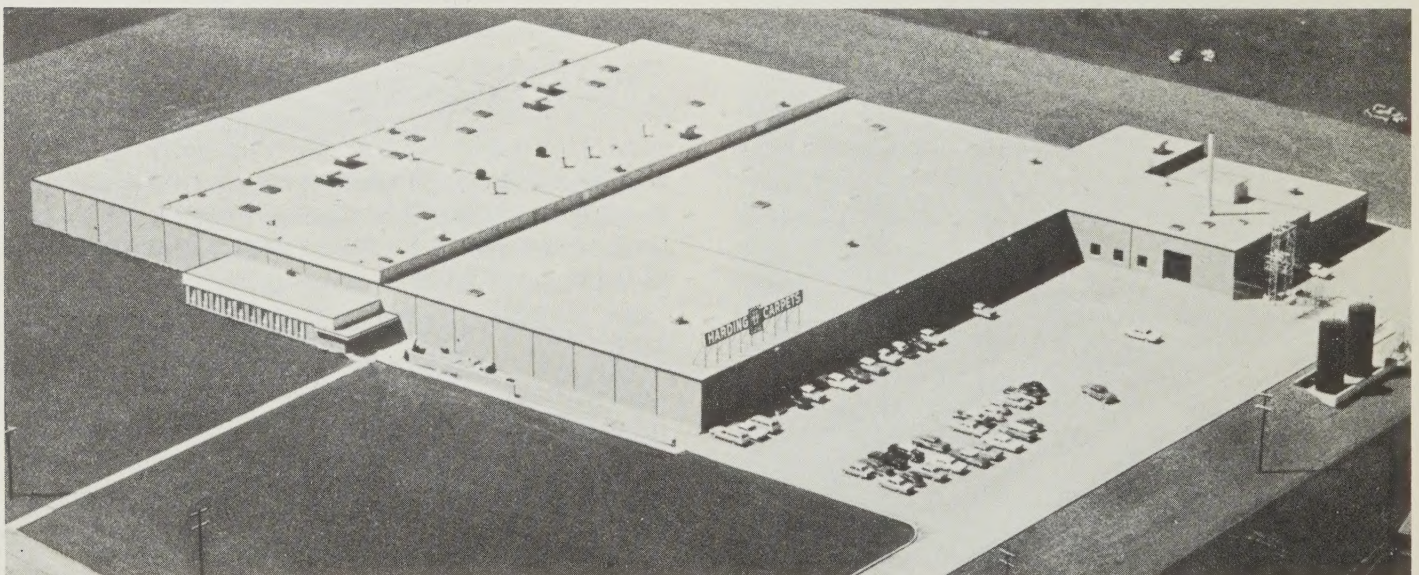
Capital expenditures of \$3,776,799 were at a very high level for the second year running. The major expenditures included the completion of the building and equipment for the first stage of the new Collingwood plant and the new Toronto warehouse for L. & G. Floor Coverings Ltd. Tufting capacity was added to the Brantford plant and additional twisting equipment at both Guelph and Brantford.

Capital expenditures in 1968 will be approximately \$600,000 primarily for tufting machines and additions to stock dyeing capacity. There are no building additions planned for 1968.

With the addition of the new Collingwood plant, employment in the company at year end had reached 1,045 to show an increase of 104 over a year ago. There are 61 employees who have completed at least 25 years of service.

The shortage of labour which reached a peak in the past year together with the high labour turnover resulting from this condition has been a major problem in our plants. In addition, there is the factor of much higher wage rates that have to be absorbed. Under these difficult conditions, every effort is being made to improve productivity and maintain the quality level of our carpets.

Mr. Harry J. Higson who has served the company in various capacities for the past 14 years and latterly as Manufacturing Manager has been appointed Vice-President, Manufacturing.



New Spinning and Tufting Mill, Collingwood, Ontario.

MARKETING REVIEW

Sales of \$22,040,204 were approximately the same as last year. The larger volume of automotive carpet sales offset the price reductions in regular carpet sales. This was the first full year for automotive carpet but it still accounted for less than five per cent of total sales.

Retail activity was relatively slow during the first half the year with a noticeable increase in demand in the third quarter. At the same time, we are feeling the impact of new competitors in our industry. Had it not been for the two week strike in September at the Brantford plant, sales in the second half would have exceeded the first half year. The year closed with demand at a good level and the outlook currently is better than a year ago.

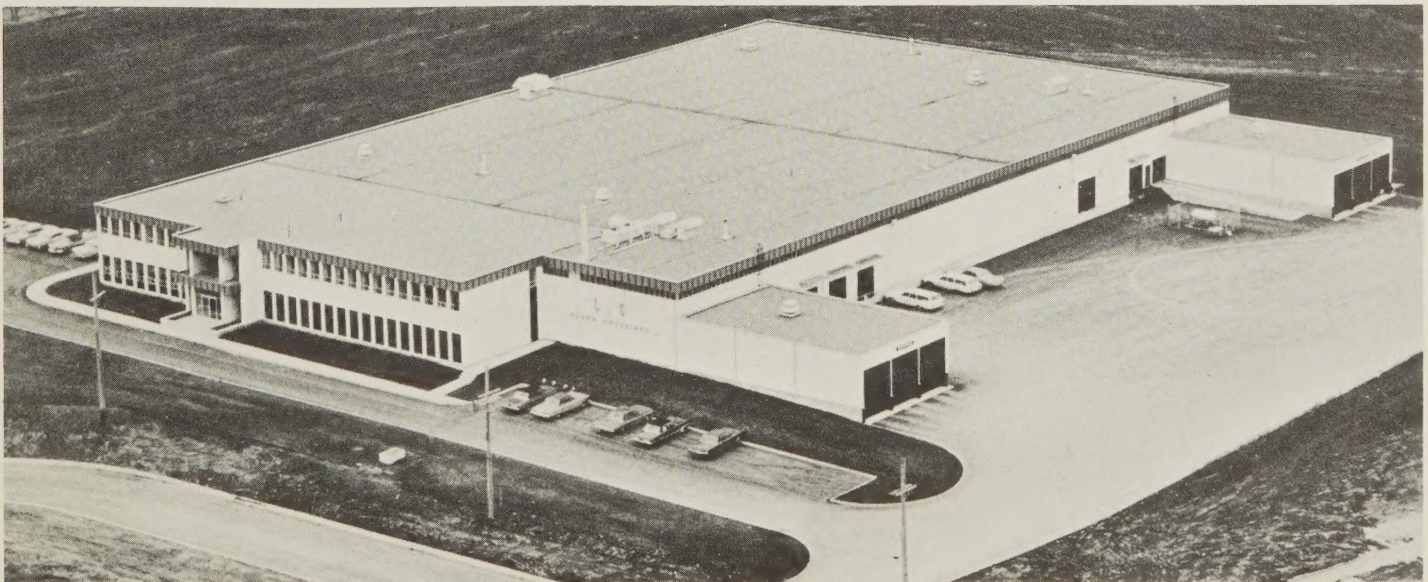
The shipment of goods to export markets had an excellent increase for the year. We are continuing our efforts to expand export volume.

L. & G. Floor Coverings Ltd. in April last moved into their new warehouse of 82,000 square feet near the Malton Airport. The location has good access to traffic arteries serving the Toronto area and also to Provincial highways. The consolidation of the L. & G. operation in one location will improve efficiency and the service to its customers. Effective September 30th, L. & G. discontinued the distribution of hard surface floor coverings and this has been replaced with a line of non-woven indoor-outdoor carpeting.

The market for carpets in Canada has experienced an average annual increase of over 15% for the past four years. Although the year is not complete at the time of writing, it is expected the increase in 1967 will be small. There is no doubt that the general business conditions and low level of residential completions have had their effect on retail activity. The use of carpet in commercial installations is growing steadily, but here again there has been a slowdown in the rate of commercial and industrial construction.

During the past two years, a new concept for carpeting has been established in the market. The indoor-outdoor carpet is made from man-made materials and designed to withstand the effects of weather. Indoor-outdoor carpeting has had good acceptance for indoor use as well as outdoor and in such areas as porches and patios which are in between. A new product "House & Garden" using a polypropylene pile has been added to our line to share in this new market.

The indoor-outdoor and other product developments are contributing to a wider use of carpets thus a broadening of the market. Carpets in various forms are replacing other types of floor covering. Recent developments in this trend have introduced carpets to the kitchen in the home and the use of carpeting in schools started in libraries and is now being used in classrooms and corridors.



New L. & G. Floor Coverings Ltd. Warehouse, Malton, Ontario.

MARKETING REVIEW (continued)

Some of the newer products being introduced by the company are reviewed on page 17.

To give greater emphasis to the development and styling of new products, Mr. E. C. Carter, Vice-President has assumed responsibility for the co-ordination of product development and styling activities. A sample tufting machine has been acquired to assist and expedite the development work and additional sampling equipment will be obtained when available. As the largest manufacturer in Canada, the company will continue to give high priority to new technical developments and the styling of its products.

While general business conditions will always influence the market for carpets, the long term outlook is most promising. In contrast to many other products over the years, the price of carpets has come down and the value in terms of performance and styling has steadily improved. There is every evidence that in a growth industry such as carpets, there will continue to be technical and styling changes and new fibres that will earn their place based on improved performance.

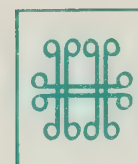
The advertising theme mentioned in last year's annual report "There is a Guaranteed Difference in Harding Carpets" was launched in our 1967 advertising and merchandising program. This theme conveys the message of quality and style that has made Harding Carpets the leader in Canada. Advertising in consumer and trade periodicals is being supplemented by television as a media. At all times, our policy is to work closely with the retailer and assist where possible in the training of retail salesmen, in-store display and retail promotions.

Our products are distributed through exclusive distributors with modern warehousing facilities across Canada. H. M. Lennox Limited in the Maritimes, Delorimier Distributors Inc. in Quebec, L. & G. Floor Coverings Ltd. in Ontario and Maguires Carpet Distributors Limited in the West all specialize in the distribution of floor covering with specially trained sales representatives.

Large departmental store accounts are sold on a direct basis although local service can and is supplied through our distributors.

CANADIAN MARKET (estimate)

	Total Sq. yds. (000's)	% of total supplied by Canadian Mills	Consumption per Household (square yards)			Canadian Net Disposable Income Per capita
			Canada	U.K.	U.S.A.	
1957	6,573	53	1.65	3.26	3.54	\$1,281
1958	7,305	64	1.78	3.45	3.71	1,340
1959	8,151	66	1.89	3.80	4.14	1,370
1960	8,964	73	2.03	3.92	4.19	1,402
1961	11,497	81	2.56	3.90	4.43	1,425
1962	11,743	86	2.56	4.07	5.01	1,513
1963	11,898	87	2.55	4.78	5.46	1,572
1964	15,697	87	3.30	5.43	6.11	1,633
1965	18,692	87	3.85	5.54	6.76	1,776
1966	20,900	87	4.24	5.56	7.30	1,899
% increase 1966/1957	218%	64%	157%	70%	106%	48%



CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year Ended October 31	
	<u>1967</u>	<u>1966</u>
SALES	\$22,040,204	\$22,089,406
COST OF SALES	<u>16,872,641</u>	<u>16,408,213</u>
GROSS PROFIT from Operations	\$ 5,167,563	\$ 5,681,193
LESS: Selling, administrative and general expense	<u>2,793,287</u>	<u>2,493,211</u>
OPERATING PROFIT	\$ 2,374,276	\$ 3,187,982
DEDUCT (ADD): Debenture interest	414,074	260,136
Other interest (Note 10)	19,729	33,478
Start-up expense — Collingwood	316,909	—
Government grant — Collingwood	<u>(152,116)</u>	<u>—</u>
PROFIT before taxes on income	\$ 1,775,680	\$ 2,894,368
Taxes on income (Note 6)	<u>366,000</u>	<u>1,133,400</u>
NET INCOME for the year	\$ 1,409,680	\$ 1,760,968
ADD: Non-recurring profit on sale of investments less applicable income taxes	<u>—</u>	<u>163,392</u>
Net income for the year (and 1966 gain on sale of investments)	\$ 1,409,680	\$ 1,924,360
Retained earnings at beginning of year	<u>6,682,666</u>	<u>5,384,616</u>
	\$ 8,092,346	\$ 7,308,976
LESS: Dividends paid common and Class A shares (1967 — 46¢, 1966 — 40¢)	<u>722,875</u>	<u>626,310</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 7,369,471</u>	<u>\$ 6,682,666</u>

HARDING CARPETS LIMITED

Assets

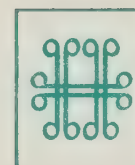
	Year Ended October 31	
	1967	1966
CURRENT		
Accounts receivable, less allowance for doubtful accounts	\$ 4,943,924	\$ 5,232,996
Grant receivable	726,066	—
Income taxes recoverable	440,173	—
Inventories (Note 2)	7,427,490	6,725,074
Prepaid expenses	129,594	106,686
TOTAL CURRENT ASSETS	<u>\$13,667,247</u>	<u>\$12,064,756</u>
OTHER		
Cash surrender value of life insurance policies	31,776	49,701
Deferred charges (Note 3)	90,785	82,605
Special 5% refundable tax	65,832	33,097
	<u>\$ 188,393</u>	<u>165,403</u>
FIXED (Note 4)		
Land, buildings, and equipment at cost	14,871,564	11,242,549
Less: Accumulated depreciation	5,312,639	4,791,533
	<u>\$ 9,558,925</u>	<u>\$ 6,451,016</u>
Approved on behalf of the Board:		
C. Malim Harding, Director		
A. Davidson, Director		
	<u>\$23,414,565</u>	<u>\$18,681,175</u>

Auditors' Report

TO THE SHAREHOLDERS OF HARDING CARPETS LIMITED:

We have examined the consolidated balance sheet of Harding Carpets Limited and its subsidiaries as at October 31, 1967, and the consolidated statements of income and retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial



CONSOLIDATED BALANCE SHEET

Liabilities

	Year Ended October 31	
	1967	1966
CURRENT		
Bank loan	\$ 2,619,050	\$ 2,170,863
Accounts payable and accrued liabilities	2,085,218	2,977,843
Income taxes payable	—	446,407
Funded debt maturing within one year	400,000	200,000
TOTAL CURRENT LIABILITIES	\$ 5,104,268	\$ 5,795,113
FUNDED DEBT (Note 5)		
Sinking fund debentures:		
Series A, 6 ⁰ %, 1984	4,100,000	4,300,000
Series B, 6 ⁷ / ₈ %, 1987	2,500,000	—
Adjustment Assistance Board Loan, 6%, 1974	1,400,000	—
	\$ 8,000,000	\$ 4,300,000
Less: Amounts maturing within one year	400,000	200,000
	\$ 7,600,000	\$ 4,100,000
DEFERRED INCOME TAXES (Note 6)	1,144,000	505,000
DEFERRED INCOME (Note 7)	573,950	—
SHAREHOLDERS' EQUITY		
Capital Stock (Note 8)		
Common shares without par value and non-voting		
Class A shares with a par value of 50¢ each.		
Authorized.		
Common shares — 1,000,000 shares		
Class A — 2,000,000 shares		
Issued and outstanding		
Common shares — 525,000 shares }	1,622,876	1,598,396
Class A shares — 1,046,750 shares }		
Retained earnings	7,369,471	6,682,666
	\$ 8,992,347	8,281,062
	<u>\$23,414,565</u>	<u>\$18,681,175</u>

position of the companies as at October 31, 1967, and the results of their operations and the source and use of their funds for the year then ended, in accordance with the generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, December 19, 1967

PRICE WATERHOUSE & CO.
Chartered Accountants.

NOTES TO FINANCIAL STATEMENTS

Year ended October 31, 1967

Note 1 — CONSOLIDATION

The consolidated financial statements include the accounts of L & G Floor Coverings Ltd., Harding Brantford Limited, and Harding Carpets (Collingwood) Limited, wholly owned subsidiary companies.

Note 2 — INVENTORIES

Valuation at October 31, 1967, at the lower of cost and market is consistent with previous years. Market price represents current replacement cost.

This item comprises the following:

Raw Materials	\$ 949,356
Goods in Process	2,354,665
Finished Goods	4,123,469
TOTAL	<u>\$7,427,490</u>

Note 3 — DEFERRED CHARGES

These represent unamortized debenture issue expenses and past service pension costs.

Note 4 — FIXED ASSETS

Depreciation charged on the books is based on straight line rates. For the year ended October 31, 1967, the amount charged against income was \$608,878 (\$531,107 in 1966).

Note 5 — FUNDED DEBT

i) The sinking fund requirements on the \$4,100,000 series A, twenty year 6% debentures, require payments of \$200,000 a year, leaving a balance of \$900,000 due in 1984;

ii) The sinking fund requirements on the \$2,500,000 series B, twenty year 6⁷/₈% debentures, require payments of \$105,000 a year, commencing in 1969, leaving a balance of \$610,000 due in 1987.

iii) The loan agreement with the Adjustment Assistance Board bears interest at the rate of 6% and requires repayment in semi-annual instalments of \$100,000 each, the final payments being due in 1974.

Note 6 — INCOME TAXES

Deferred income taxes arise as a result of claiming for income tax purposes maximum capital cost allowances which are in excess of depreciation recorded in the accounts. In 1967 this amounted to \$639,000 compared with \$194,000 in 1966. The effective rate of income taxes payable is lower in both 1966 and 1967 due to the non-taxable profits of Harding Brantford Limited, and in 1967 due to the Area Development grant of \$152,116 included in income.

Note 7 — DEFERRED INCOME

This represents the Area Development grant in respect of the capital expenditures at Collingwood to June 30, 1967 to the extent that it has not been taken into income for the year. The balance of the grant will be taken into income over the next three years.

Note 8 — CAPITAL STOCK

On February 11, 1967, Supplementary Letters Patent

were issued to the Company, sub-dividing the authorized and issued common and Class A shares on a two-for-one basis.

Note 9 — EMPLOYEES' STOCK OPTIONS

Options for 100 common and 2,200 Class A shares were exercised during the year ended October 31, 1967, for a cash consideration of \$24,480, completing the plan approved by the shareholders in 1960. Pursuant to the new stock option plan approved by the shareholders in 1966, options for 4,000 common and 13,350 Class A shares were granted during the year. None of these options has been exercised to date. 48,650 shares remain for granting future options.

Note 10 — INTEREST EXPENSE

Interest costs of \$117,681 were capitalized during the year representing interest paid on borrowed money used during the period of construction of the Collingwood plant and the L. & G. warehouse.

Note 11 — PENSION PLAN

In 1948 the Company introduced its Employees' Pension Plan. This Plan was integrated with the Canada Pension Plan and the Quebec Pension Plan in 1966. Employees contribute 5% of their earnings to these Plans with the Company making up the balance to provide a minimum benefit of 1³/₄% for each year of service.

The Deferred Profit Sharing Plan was introduced in 1960. It is a trustee Plan which is paid for completely by the Company and has to date been mainly invested in the shares of Harding Carpets Limited. The Company contributes 10% of net profit after taxes to these plans and guarantees that its contribution will never be less than the employees' contribution.

Since 1948 net pension and profit sharing contributions have been as follows:

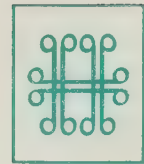
	Company Net Contributions	Employees' Net Contributions
Past Service	\$ 259,461	—
Employees Pension Plan	805,164	\$ 975,382
Canada Pension Plan and Quebec Pension Plan	105,021	105,021
Deferred Profit Sharing Plan*	416,637	—
	<u>\$1,586,283</u>	<u>\$1,080,403</u>

(*The market value of the Deferred Profit Sharing Plan fund at October 31, 1967, was \$1,198,956).

The cost to the Company of the Pension Plans and Deferred Profit Sharing Plan in 1967 was \$135,831 (1966 — \$170,986).

Note 12 — DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

Direct remuneration of directors and senior officers totalled \$219,700 during the year ended October 31, 1967.



CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

	Year Ended October 31	
	1967	1966
CURRENT ASSETS	\$13,667,247	\$12,064,756
CURRENT LIABILITIES	5,104,268	5,795,113
WORKING CAPITAL	<u>\$ 8,562,979</u>	<u>\$ 6,269,643</u>
SOURCE OF FUNDS		
From Operations:		
Net income for the year	\$ 1,409,680	\$ 1,760,968
Charges not involving current disbursement of funds		
Depreciation	608,878	531,107
Deferred income taxes	639,000	194,000
Other non-cash items	111,644	32,201
Total from operations	\$ 2,769,202	\$ 2,518,276
Deferred income	573,950	—
Non-recurring profit less applicable income taxes	—	163,392
Sale of sinking fund debentures	2,500,000	—
Proceeds of Adjustment Assistance Board Loan	1,500,000	—
Issue of capital stock	24,480	166,669
Disposal of fixed assets	15,420	9,556
	<u>\$ 7,383,052</u>	<u>\$ 2,857,893</u>
USE OF FUNDS		
Expenditures on fixed assets	\$ 3,776,799	\$ 3,044,703
Dividends paid	722,875	626,310
Funded debt maturing within one year	400,000	200,000
Payment on Adjustment Assistance Board Loan	100,000	—
Increase (Decrease) in other assets	90,042	(96,107)
	<u>\$ 5,089,716</u>	<u>\$ 3,774,906</u>
WORKING CAPITAL INCREASE (DECREASE)	<u>\$ 2,293,336</u>	<u>\$ (917,013)</u>

10 YEAR SUMMARY OF FINANCIAL DATA

(000's omitted)

OPERATING RESULTS	1967	1966	1965
INCOME FROM OPERATIONS	\$2,809	\$3,695	\$3,589
Depreciation	609	531	426
Debenture interest	414	260	270
Amount written off investment	—	—	—
Profit before income taxes	1,776	2,894	2,886
Income taxes ^[1]	366	1,133	1,209
NET INCOME	\$1,410	\$1,761	\$1,677
Net earnings per common and Class A share ^[2]	\$ 0.90	\$ 1.12	\$ 1.08
Dividends paid ^[3]	\$ 723	\$ 626	\$ 505
Per preference share ^[4]	—	—	—
Per common and Class A share ^[2]	\$ 0.46	\$ 0.40	\$ 0.32
RETAINED EARNINGS FOR YEAR ^[5]	\$ 687	\$1,298	\$1,172
CAPITAL EXPENDITURES	\$3,777	\$3,045	\$1,402
FINANCIAL POSITION			
Current assets	\$13,667	\$12,065	\$10,266
Current liabilities	5,104	5,795	3,079
WORKING CAPITAL	\$ 8,563	\$ 6,270	\$ 7,187
Inventories	7,427	6,725	5,015
Fixed assets (net)	9,559	6,451	3,947
Funded debt	7,600	4,100	4,300
SHAREHOLDERS' EQUITY	\$ 8,992	\$ 8,281	\$ 6,816
Equity per common and Class A share ^[2]	\$ 5.71	\$ 5.27	\$ 4.38
Return on common and Class A shareholders' equity	15.7%	21.3%	24.6%

^[1] Tax liability reduced in 1965, 1966 and 1967 by benefits of designated area legislation.

^[2] Adjusted to reflect subdivision of each common share, on March 16, 1964, and each common and Class A share on February 11, 1967.



YEAR ENDED OCTOBER 31

1964	1963	1962	1961	1960	1959	1958
\$3,179	\$2,335	\$1,856	\$1,456	\$1,182	\$1,615	\$ 836
335	375	329	284	230	223	204
203	46	51	56	61	64	51
—	60	60	60	—	—	—
2,635	1,849	1,411	1,051	882	1,319	572
1,340	895	699	531	448	667	270
\$1,295	\$ 954	\$ 712	\$ 520	\$ 434	\$ 652	\$ 302
\$ 0.82	\$ 0.56	\$ 0.43	\$ 0.35	\$ 0.29	\$ 0.44	\$ 0.21
\$ 334	\$ 183	\$2,089	\$ 175	\$ 175	\$ 120	\$ 129
5 ³ / ₄ %	5 ³ / ₄ %	5 ³ / ₄ %	—	—	—	—
\$ 0.20	\$ 0.05	\$ 1.34	\$ 0.11	\$ 0.11	\$ 0.08	\$ 0.09
\$ 961	\$ 771	\$ 517	\$ 345	\$ 259	\$ 532	\$ 173
\$ 856	\$ 572	\$ 411	\$ 440	\$ 550	\$ 541	\$ 62
\$9,042	\$6,793	\$5,470	\$4,825	\$4,596	\$5,276	\$4,994
2,078	3,305	1,617	1,040	977	1,307	1,012
\$6,964	\$3,488	\$3,853	\$3,785	\$3,619	\$3,969	\$3,982
4,472	3,732	3,170	2,921	2,852	2,745	2,750
2,987	2,425	2,233	2,153	2,003	1,685	1,483
4,500	740	860	980	1,100	1,220	1,340
\$5,564	\$5,451	\$5,601	\$5,390	\$5,045	\$4,771	\$4,154
\$ 3.59	\$ 2.95	\$ 2.45	\$ 3.59	\$ 3.36	\$ 3.21	\$ 2.95
22.9%	18.9%	17.7%	9.6%	8.6%	13.7%	7.3%

³ Includes stock dividend of \$1,893,750 paid on the common shares in 1962.

⁴ Preference shares redeemed February 17, 1964.

⁵ For 1966 includes non-recurring profit less applicable income taxes.

SOME NEW HARDING PRODUCTS

AMBASSADOR—Truly the finest carpet produced in Canada. The plain cut pile is woven using only the finest wools available to produce a luxurious surface. The high quality of Ambassador places it at the top of Harding's line of fine broadloom.

ARTISAN—A collection of highly styled traditional designs in contemporary colourings. Woven with Acrilan® acrylic yarn, Artisan with its distinctive styling fills an important place in Harding's complete range of products from patterned to plain.

CALEDON HILLS—A product of a new type tufting machine installed in the Collingwood plant. The cut and loop pile of 100% nylon is highly styled to take full advantage of this new technology.

HOUSE & GARDEN—Harding's indoor-outdoor carpet. Tufted with 100% polypropylene yarn, House & Garden is a true pile carpet and in addition will stand up to all weather conditions. This rugged durable carpet is equally suitable for indoor installation.

LYNNWOOD—The latest addition to our famous line of Acrilan® plush carpets. This deep, luxurious pile has a finish and fine appearance not previously available in the medium price range.

TITAN—One of the most promising additions to the Harding line in recent years. Continuous filament nylon is tufted to produce an exceptionally rugged carpet with attractive colouring effects. Titan has been developed and styled for both contract and domestic installations. Architects and contractors have been quick to recognize the outstanding performance available in Titan in terms of wear and styling.

YEOMAN—A heavy duty tufted Acrilan® carpet developed specially for the growing commercial market. The multi-colour styling makes Yeoman suitable for a wide variety of contract installation.

Harding Carpets...



...very easy to
live with



There's a guaranteed difference in
**HARDING
CARPETS**
BRANTFORD, CANADA

